

**REPORT OF THE AUDIT OF THE
LEWIS COUNTY
CLERK**

**For The Period
June 1, 2009 Through December 31, 2009**



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EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE LEWIS COUNTY CLERK

For The Period June 1, 2009 Through December 31, 2009

The Auditor of Public Accounts has completed the Lewis County Clerk's audit for the period June 1, 2009 through December 31, 2009. Based upon the audit work performed, the financial statement presents fairly in all material respects, the revenues, expenditures, and excess fees in conformity with the regulatory basis of accounting.

Report Comments:

- The County Clerk Should Invest Public Funds In Interest Bearing Bank Accounts
- The Clerk's Office Lacks Adequate Segregation Of Duties

Deposits:

The County Clerk's deposits were insured by the Federal Deposit Insurance Corporation (FDIC).

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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Steve Applegate, Lewis County Judge/Executive
The Honorable Glenda K. Himes, Lewis County Clerk
Members of the Lewis County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of revenues, expenditures, and excess fees - regulatory basis of the County Clerk of Lewis County, Kentucky, for the period June 1, 2009 through December 31, 2009. This financial statement is the responsibility of the County Clerk. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the County Clerk's office prepares the financial statement on a regulatory basis of accounting that demonstrates compliance with the laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the revenues, expenditures, and excess fees of the County Clerk for the period June 1, 2009 through December 31, 2009, in conformity with the regulatory basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated June 9, 2010 on our consideration of the Lewis County Clerk's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.



The Honorable Steve Applegate, Lewis County Judge/Executive
The Honorable Glenda K. Himes, Lewis County Clerk
Members of the Lewis County Fiscal Court

Based on the results of our audit, we have presented the accompanying comments and recommendations, included herein, which discusses the following report comments:

- The County Clerk Should Invest Public Funds In Interest Bearing Bank Accounts
- The Clerk's Office Lacks Adequate Segregation Of Duties

This report is intended solely for the information and use of the County Clerk and Fiscal Court of Lewis County, Kentucky, and the Commonwealth of Kentucky and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen
Auditor of Public Accounts

June 9, 2010

LEWIS COUNTY
 GLENDA K. HIMES, COUNTY CLERK
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS

For The Period June 1, 2009 Through December 31, 2009

Revenues

| | | |
|-------------------------|----|--------|
| State Fees For Services | \$ | 50,352 |
|-------------------------|----|--------|

| | | |
|--------------|--|-------|
| Fiscal Court | | 2,297 |
|--------------|--|-------|

Licenses and Taxes:

Motor Vehicle-

| | | |
|--------------------------------|----|---------|
| Licenses and Transfers | \$ | 173,126 |
| Usage Tax | | 309,858 |
| Tangible Personal Property Tax | | 356,790 |

Other-

| | | |
|------------------------|--|---------|
| Fish and Game Licenses | | 2,020 |
| Marriage Licenses | | 1,953 |
| Deed Transfer Tax | | 7,448 |
| Delinquent Tax | | 82,602 |
| | | 933,797 |

Fees Collected for Services:

Recordings-

| | | |
|--|--|--------|
| Deeds, Easements, and Contracts | | 681 |
| Real Estate Mortgages | | 8,454 |
| Chattel Mortgages and Financing Statements | | 18,960 |
| All Other Recordings | | 16,059 |

Charges for Other Services-

| | | |
|-------------|--|--------|
| Copywork | | 2,921 |
| Late Filing | | 136 |
| Notary Fees | | 418 |
| | | 47,629 |

Other:

| | | |
|-------------------------------|--|-------|
| Miscellaneous | | 435 |
| Candidate Filing Fees | | 800 |
| Affordable Housing Trust Fees | | 6,750 |
| | | 7,985 |

| | | |
|----------------|--|-----------|
| Total Revenues | | 1,042,060 |
|----------------|--|-----------|

The accompanying notes are an integral part of this financial statement.

LEWIS COUNTY
 GLENDA K. HIMES, COUNTY CLERK
 STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS
 For The Period June 1, 2009 Through December 31, 2009
 (Continued)

| | | | | | | | | | |
|--|--|--|--|--|----|---------|----|---------|--|
| <u>Expenditures</u> | | | | | | | | | |
| Payments to State: | | | | | | | | | |
| Motor Vehicle- | | | | | | | | | |
| Licenses and Transfers | | | | | \$ | 114,447 | | | |
| Usage Tax | | | | | | 300,709 | | | |
| Tangible Personal Property Tax | | | | | | 129,935 | | | |
| Licenses, Taxes, and Fees- | | | | | | | | | |
| Fish and Game Licenses | | | | | | 1,964 | | | |
| Delinquent Tax | | | | | | 11,692 | | | |
| Legal Process Tax | | | | | | 6,386 | | | |
| Affordable Housing Trust | | | | | | 6,750 | \$ | 571,883 | |
| Payments to Fiscal Court: | | | | | | | | | |
| Tangible Personal Property Tax | | | | | | 37,883 | | | |
| Delinquent Tax | | | | | | 10,264 | | | |
| Deed Transfer Tax | | | | | | 7,076 | | 55,223 | |
| Payments to Other Districts: | | | | | | | | | |
| Tangible Personal Property Tax | | | | | | 174,701 | | | |
| Delinquent Tax | | | | | | 39,479 | | 214,180 | |
| Payments to Sheriff | | | | | | | | 1,025 | |
| Payments to County Attorney | | | | | | | | 12,036 | |
| Operating Expenditures and Capital Outlay: | | | | | | | | | |
| Personnel Services- | | | | | | | | | |
| Deputies' Salaries | | | | | | 62,256 | | | |
| Part-Time Salaries | | | | | | 2,000 | | | |
| Unpaid Overtime Due Employees | | | | | | 574 | | | |
| Contracted Services- | | | | | | | | | |
| Advertising | | | | | | 1,742 | | | |
| Materials and Supplies- | | | | | | | | | |
| Office Supplies | | | | | | 12,996 | | | |
| Other Charges- | | | | | | | | | |
| Conventions and Travel | | | | | | 2,345 | | | |
| Dues | | | | | | 965 | | | |

The accompanying notes are an integral part of this financial statement.

LEWIS COUNTY
 GLENDA K. HIMES, COUNTY CLERK
 STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS
 For The Period June 1, 2009 Through December 31, 2009
 (Continued)

Expenditures (Continued)

Operating Expenditures and Capital Outlay: (Continued)

| | | | |
|---|----|---------------|------------------------|
| Other Charges: (Continued) | | | |
| Postage | \$ | 2,964 | |
| Refunds | | 354 | |
| Clerk's Bond | | 533 | |
| Tax Bill Preparation | | <u>2,612</u> | \$ 89,341 |
| | | | |
| Capital Outlay- | | | |
| Office Equipment | | <u>19,274</u> | |
| | | | |
| Total Expenditures | | | <u>\$ 962,962</u> |
| | | | |
| Net Revenues | | | 79,098 |
| Less: Statutory Maximum | | | <u>40,131</u> |
| | | | |
| Excess Fees | | | 38,967 |
| Less: Expense Allowance | | | <u>2,100</u> |
| | | | |
| Excess Fees Due County for 2009 | | | 36,867 |
| Payments to Fiscal Court - February 8, 2010 | | | <u>37,441</u> |
| | | | |
| Balance Due Clerk at Completion of Audit | | | <u><u>\$ (574)</u></u> |

The accompanying notes are an integral part of this financial statement.

LEWIS COUNTY
NOTES TO FINANCIAL STATEMENT

December 31, 2009

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of revenues over expenditures to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

KRS 64.820 directs the fiscal court to collect any amount, including excess fees, due from the County Clerk as determined by the audit. KRS 64.152 requires the County Clerk to settle excess fees with the fiscal court by March 15 each year.

The financial statement has been prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this regulatory basis of accounting, revenues and expenditures are generally recognized when cash is received or disbursed with the exception of accrual of the following items (not all-inclusive), at December 31 that may be included in the excess fees calculation:

- Interest receivable
- Collection on accounts due from others for 2009 services
- Reimbursements for 2009 activities
- Payments due other governmental entities for December tax and fee collections and payroll
- Payments due vendors for goods or services provided in 2009

The measurement focus of a fee official is upon excess fees. Remittance of excess fees is due to the County Treasurer in the subsequent year.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the County Clerk's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

LEWIS COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2009
(Continued)

Note 2. Employee Retirement System

The county official and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost sharing, multiple employer defined benefit pension plan, which covers all eligible full-time employees and provides for retirement, disability and death benefits to plan members. Benefit contributions and provisions are established by statute.

Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. Nonhazardous covered employees who begin participation on or after September 1, 2008 are required to contribute 6 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 13.50 percent for the first six months and 16.16 percent for the last six months.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Nonhazardous employees who begin participation on or after September 1, 2008 must meet the rule of 87 (members age plus years of service credit must equal 87, and the member must be a minimum of 57 years of age) or the member is age 65, with a minimum of 60 months service credit.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, KY 40601-6124, or by telephone at (502) 564-4646.

Note 3. Deposits

The Lewis County Clerk maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the County Clerk and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the County Clerk's deposits may not be returned. The Lewis County Clerk does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of December 31, 2009, all deposits were covered by FDIC insurance.

LEWIS COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2009
(Continued)

Note 4. Grant

The Lewis County Clerk received a local records microfilming grant from the Kentucky Department for Libraries and Archives in the amount of \$4,930. No funds were expended during the year. The unexpended grant balance was \$4,930 as of December 31, 2009.

Note 5. Software Maintenance Agreement

The Office of the County Clerk entered into a 12-month agreement with Data Records Management Services, LLC on June 23, 2009. The purpose of the agreement was to provide computer software upgrades and maintenance. The agreement required quarterly payments of \$1,451. The Office of the County Clerk was in compliance with the terms of the agreement as of December 31, 2009.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Steve Applegate, Lewis County Judge/Executive
The Honorable Glenda K. Himes, Lewis County Clerk
Members of the Lewis County Fiscal Court

Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards

We have audited the statement of revenues, expenditures, and excess fees - regulatory basis of the Lewis County Clerk for the period June 1, 2009 through December 31, 2009, and have issued our report thereon dated June 9, 2009. The County Clerk's financial statement is prepared in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Lewis County Clerk's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the County Clerk's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the County Clerk's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified a certain deficiency in internal control over financial reporting, described in the accompanying comment and recommendation that we consider to be a significant deficiency in internal control over financial reporting.

- The Clerk's Office Lacks Adequate Segregation Of Duties

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.



Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Lewis County Clerk's financial statement for the period June 1, 2009 through December 31, 2009, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matters that are required to be reported under Government Auditing Standards and which is described in the accompanying comment and recommendation.

- The County Clerk Should Invest Public Funds In Interest Bearing Bank Accounts

The Lewis County Clerk's responses to the findings identified in our audit are included in the accompanying comments and recommendations. We did not audit the County Clerk's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, the Lewis County Fiscal Court, and the Department of Local Government and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,



Crit Luallen
Auditor of Public Accounts

June 9, 2010

COMMENTS AND RECOMMENDATIONS

LEWIS COUNTY
GLENDA K. HIMES, COUNTY CLERK
COMMENTS AND RECOMMENDATIONS

For The Period June 1, 2009 Through December 31, 2009

STATE LAWS AND REGULATIONS:

The County Clerk Should Invest Public Funds In Interest Bearing Bank Accounts

The Clerk's 2009 fee account for the period June 1, 2009 through December 31, 2009 was non-interest bearing. KRS 66.480 recommends that county officials deposit public funds in interest bearing accounts. The Clerk should invest the funds deposited in her official account so that the county may receive the full benefit of taxpayer dollars. We recommend the Clerk deposit public funds in an interest bearing account.

County Clerk's Response: I have contacted the bank and they are working on a solution.

INTERNAL CONTROL - SIGNIFICANT DEFICIENCY:

The County Clerk's Office Lacks Adequate Segregation Of Duties

The County Clerk's Office has a lack of segregation of duties. The Clerk collects cash, prepares daily checkout sheets and deposit tickets, and posts transactions to both the receipts and disbursements ledgers. Absence of a proper segregation of duties increases the possibility fraud, errors, and financial misstatements may go undetected. The Clerk should not collect cash and post to the receipts ledgers, these accounting functions should be separated. The preparation of the daily checkout sheets and deposit tickets and the making of deposits should also be segregated. We recommend the Clerk segregate the above accounting functions.

County Clerk's Response: With a small staff segregation of duties is difficult but I will try to do better in the future.

